COUNTY OF SAN LUIS OBISPO
AUDITOR • CONTROLLER • TREASURER • TAX COLLECTOR• PUBLIC ADMINISTRATOR

Internal Audit Division
Quality Assurance and Improvement Program
Self-Assessment

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The San Luis Obispo County Internal Audit division is required to undergo a peer review every five years. In order to prepare for our upcoming peer review as well as to assess the divisions' strengths and challenges, internal audit staff have conducted a self-assessment. The background and results of our analysis are detailed below.

Structure and Reporting Standards

The Internal Audit division is comprised of three Auditor-Analysts and one Principal Auditor-Analyst who report directly to the Auditor-Controller-Treasurer-Tax Collector. The Internal Audit division follows a set of auditing standards put forth by the Institute of Internal Auditors (IIA). The standards are encompassed within the Institute of Internal Auditors' *International Professional Practices Framework,* commonly referred to as the *Red Book*.

The Red Book standards (*Standards*) require the Internal Audit division to have a quality assurance and improvement program (QAIP) which includes periodic internal and external assessments, as well as on-going monitoring of performance. The purpose of the QAIP is to evaluate the internal audit division's conformance with the *Standards*, to assess the efficiency and effectiveness of the internal audit function, and to identify opportunities for improvement.

Although the County's Internal Audit division has consistently met the external assessment and on-going monitoring performance requirements of the *Standards*, an internal assessment had not been undertaken. This report presents the results of our first internal assessment, which covers fiscal years 2010-11 through 2014-15. Going forward, we will conduct internal assessments every five years in accordance with the *Standards.* To perform the self-assessment, we utilized the Institute of Internal Auditors' Quality Assessment Manual and conducted surveys and interviews of selected County management and internal audit staff.

Results

We determined the internal audit division is in general compliance with the *Standards* overall, and we identified several best practices the internal audit division utilizes consistently. We also identified areas of noncompliance with the *Standards* as well as best practice areas where improvements could be made.

Best Practices Being Utilized

1. Commitment to Internal Audit division vision and adding value
Internal audit staff demonstrate a strong dedication to the team's vision of inspiring and elevating public trust in government by assisting and supporting the County, the Board of Supervisors, and other stakeholders in achieving their mission with transparency and integrity. The division focuses on performing audits that add value to County operations.

2. Collaborative and educational approach

The Internal Audit division makes an effort to work with departments and other stakeholders in a collaborative manner and keeps the focus on education and finding workable solutions to identified issues.

3. Risk-based approach

The Internal Audit division performs a thorough risk assessment of County activities and operations in developing its audit plan. Additionally, individual engagement areas of focus are determined based on an evaluation of high-risk activities.

Noncompliance with the Standards

1. Board Approved Internal Audit Charter

An internal audit charter defines the Internal Audit division's mission, purpose, authority, responsibility, independence and access. The Internal Audit division's internal audit charter has recently been completed. Standard 1000 of the International Standards for the Professional Practice of Internal Auditing requires the internal audit charter be presented to the Administrative Office and the Board for approval.

Recommendation: The Internal Audit division should develop and submit an audit charter for approval by the Board of Supervisors.

Response: The Internal Audit division has developed an audit charter which is being submitted for Board approval with this report.

2. Periodic reporting of Internal Audit division performance to the Board

The results of the Internal Audit division's performance should be submitted to the Board annually, in accordance with Standards 1300 -1320 and Standard 2600. The Internal Audit division has not been formally tracking key performance indicators (KPIs); however, tracking KPIs will help the internal audit division quantify its efficiency and effectiveness.

Recommendation: The Internal Audit division must track and report the results of the KPIs to the Board on an annual basis.

Response: The Internal Audit division will begin reporting KPIs to the Board.

Best Practices Areas for Improvement

1. Create a strategic plan

The Internal Audit division does not have a strategic plan. Best internal auditing practices require the Internal Audit division to have developed a Strategic Plan as outlined in the IIA's Practice Guide, *Developing an Internal Audit Strategic Plan*. Staff were unaware of the importance of a strategic plan for the Internal Audit division; however, the division may be missing critical areas that should be assessed due to lack of a strategic plan. Internal audit staff have recently begun to create a strategic plan.

2. Finalize and update procedures

The internal audit manual is out of date, and the electronic workpaper and risk assessment procedures manuals are unfinished. Standard 2040 requires the Chief Audit Executive to establish policies and procedures to guide the Internal Audit division; however, the form and content of policies and procedures may be dependent upon the size and structure of the Internal Audit division and the complexity of its work. Because the Internal Audit division is small and policies and procedures are easily communicated, formal documentation has not been a priority. Beginning in FY 2015-16 internal audit staff started steadily working on updating and finalizing Internal Audit division procedures, with the goal of having all procedures updated by the end of FY 2016-17.

3. Improve staff Information Technology audit skills

Internal Audit division staff collectively possess the knowledge, skills, and other competencies required to assess key information technology (IT) risks and controls, but lack the expertise to perform significant IT audit work. Standard 1210.A3 requires that members of the internal audit division have sufficient knowledge of key information technology risks and controls and available technology-based audit techniques to perform their assigned work. Internal Audit division staff have not been specifically trained in IT audit skills, therefore while the Internal Audit division is in compliance with Standard 1210.A3; this is an area for improvement. Internal audit staff have committed to gaining further training in IT risk, controls, and technology-based audit techniques.

4. Implement use of Computer Assisted Auditing Techniques

The Internal Audit division does not utilize Computer Assisted Auditing Techniques (CAATS). Use of CAATS for data analytics and continuous auditing is a best practice. The Internal Audit division has been researching CAATs options, but has not found a cost-effective program to-date. The Internal Audit division could provide more audit coverage with greater effectiveness by using CAATS. Staff will continue to monitor options for implementing CAATS to increase data analytics and continuous auditing.

5. Centralize tracking of recommendations

The Internal Audit division tracks the status of outstanding recommendations by performing follow-up audits within six months to a year after the recommendation is made. Best auditing practices require centralized tracking of all levels of performance. The Internal Audit division is exploring options for centralizing the tracking of outstanding recommendations through the division's auditing software.

6. Issue reports timely

Although issues and findings are discussed with departmental staff throughout the audit process, the final reports for the two projects sampled for the assessment were issued approximately two months after completion of fieldwork. Standard 2420 requires engagement communications to be timely. In both cases the reports were delayed due to the timing of financial reporting (CAFR) responsibilities which took priority. Beginning with FY 2016-17 the Internal Audit division implemented a transition period between the auditing and financial reporting seasons which will help minimize delays due to conflicts with financial reporting.

7. Meet Continuing Professional Education (CPE) requirements

During the assessment period, a staff member was one hour short of the required CPE hours. A second staff member had been primarily assigned to Public Administrator duties and was unable to complete the required hours due to the immediacy of Public Administrator needs. The Internal Audit division's policy states staff must complete a minimum of 80 hours of continuing education over a two-year cycle. Staff must also complete a minimum of 24 hours of continuing professional education in subjects directly related to the government environment within the two-year cycle. The Chief Internal Auditor has implemented the practice of reviewing staff CPE hours quarterly to ensure staff are meeting the CPE requirements.

8. Document approval of individual engagement audit programs

The Internal Audit division does not formally approve the engagement audit program prior to its implementation. The audit program identifies the steps the auditor must follow to test the objectives of the audit. An audit program is developed by the auditor and is completed in collaboration with the auditee. Standard 2240 requires audit work programs to be formally approved prior to implementation. Internal audit division staff had been discussing the audit plans prior to performing fieldwork, but were unaware of the requirement to formally approve them causing non-compliance with the Standard. The reviewer for each engagement has begun to document approval of the audit program prior to its implementation.